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ACTION ARA-10

INFO OCT-01 ISO-00 TRSE-00 EB-07 COME-00 FEA-01 SIL-01

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4919

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TAGS: EFIN MX

SUBJ: THE POLITICS OF TAXATION

REF: MEXICO 9784

SUMMARY: NEW TAX LAWS WHICH BEGAN TAKING EFFECT NOV. 19 WERE PRODUCT OF LAWMAKING PROCESS UNUSUAL IN MEXICO FOR OPENNESS OF DISSENT, POLITICAL HORSE-TRADING, BREADTH OF PARTICIPATION, AND CONGRESSIONAL ACTIVISM. TOUTED AS MEANS OF CHANNELING FRUITS OF DEVELOPMENT INTO COUNTRY-SIDE AND THUS REDUCING DEPENDENCE ON IMPORTS, TAX PROPOSALS TOUCHED SENSITIVE NERVE AMONG URBAN MIDDLE CLASS, WHICH LOUDLY MADE ITS DISCONTENT HEARD THROUGH MEDIA AND CONGRESS. ALTHOUGH OUTCOME DIFFERED LITTLE FROM ECHEVERRIA'S ORIGINAL TAX PACKAGE, EXPERIENCE WITH SOMETHING APPROACHING "PARTICIPATORY DEMOCRACY" WAS AN EXHILARATING ONE FOR SOME MEXICANS, ONE WHICH MIGHT HELP TAKE PAINFUL EDGE OFF NEW TAXES THEMSELVES.

1. AMID WIDESPREAD GRUMBLING AND PROFOUND BUREAUCRATIC CONFUSION, STAGE ONE OF GOM'S NEW PACKAGE OF FISCAL REFORMS -- INCLUDING MUCH-DISPUTED 50 PERCENT TAX ON GASOLINE, 15 PERCENT ON
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LUXURY RESTAURANT TABS, AND GRADUATED INCREASE ON AUTOMOTIVE VEHICLES -- TOOK EFFECT NOV. 19. LATER STAGES, RAISING

TAXES ON BEER, PERSONAL INCOMES, ETC., BECOME EFFECTIVE BETWEEN NOW AND FIRST OF YEAR (REFTEL). IMPLEMENTATION OF TAX PACKAGE THUS CLIMAXES ONE OF MORE POLITICALLY INTERESTING LAW-MAKING EXERCISES IN MEXICO IN RECENT YEARS.

2. FROM OUTSET, FISCAL REFORMS WERE BILLED BY GOM AS CAPSTONE OF MAJOR GOVERNMENTAL EFFORT TO GET A HANDLE ON INFLATION AND REDUCE MEXICO'S DEPENDENCE ON FOREIGN CREDITS AND SOURCES OF SUPPLY. IN PRESENTATION BEFORE CONGRESS AND IN INNUMERABLE PUBLIC APPEARANCES DURING RECENT WEEKS, TREASURY SECRETARY LOPEZ PORTILLO ARGUED THAT REVENUES WERE NEEDED TO STIMULATE AGRICULTURAL PRODUCTION IN PARTICULAR AND CHANNEL BENEFITS OF DEVELOPMENT INTO LONG-NEGLECTED COUNTRYSIDE. BY DESIGN, NEW TAXES BURDEN WAS TO BE BORNE BY UPPER AND MIDDLE CLASSES OF URBAN SECTOR, WHICH HAVE BEEN MAJOR BENEFICIARIES OF DEVELOPMENT FRUITS TO DATE.

3. NEEDLESS TO SAY, NOT EVERYONE BOUGHT THE GOVERNMENT'S RATIONALE NOR RALLIED TO MAKE THE REQUIRED SACRIFICES. A WAVE OF OPPOSITION QUICKLY ROSE AMONG MEXICO CITY'S MIDDLE CLASS, WHICH ALREADY CONSIDERED ITSELF THE UNPROTECTED VICTIM OF A TWENTY-FIVE PERCENT INFLATION RATE. WEDDED AS IT IS PSYCHOLOGICALLY TO THE AUTOMOBILE FOR STATUS AS WELL AS TRANSPORTATION, THIS GROUP WAS RANKLED ABOVE ALL BY STEEP TAX ON GASOLINE -- A "REGRESSIVE" TAX WHICH WOULD PINCH RICH CADILLAC OWNERS NO HARDER THAN THOSE DRIVING WORN OUT JALOPIES.

4. PRES. ECHEVERRIA EVIDENTLY ANTICIPATED SUCH RESISTANCE TO HIS REFORMS, AND HE SENT THEM FORWARD WITH A COMMENT TO THE PRESS THAT THEY WERE NOT WRIT IN STONE BUT MIGHT BE MODIFIED BY CONGRESS. LATTER QUICKLY TOOK ITS CUE, AND SEVERAL KEY PRI CONGRESSMEN (NOTABLY, SENATE LEADER OLIVARES SANTANA AND SEN. LUIS FARIAS OF NUEVO LEON) EXPRESSED MISGIVINGS OVER THE PROPOSALS AND ANNOUNCED PLANS TO INVITE LOPEZ PORTILLO TO DEFEND THEM PERSONALLY BEFORE CONGRESS. OPPOSITION CONGRESSMEN MEANWHILE HAD A FIELD DAY, CONDEMNING GOVERNMENT FOR PENALIZING MIDDLE-CLASS WAGE-EARNERS
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FOR ITS OWN INEPTNESS AND DISHONESTY IN MANAGING ECONOMY.

5. DEBATE OVER TAX PROPOSALS, BOTH INSIDE AND OUTSIDE HALLS OF CONGRESS, WAS REVEALING. REPRESENTATIVES OF AGRARIAN SECTOR WERE OF COURSE JUBILANT. ORGANIZED LABOR RATHER COOLLY ENDORSED PROPOSALS BUT WARNED DARKLY THAT ANY INCREASE IN LIVING COSTS TO WORKERS -- PARTICULARLY IN FORM OF ADDED TRANSPORT COSTS ON CONSUMER GOODS -- WOULD HAVE TO BE COMPENSATED THROUGH WAGE HIKES LATER ON (CTM HAS SINCE ANNOUNCED IT WOULD DEMAND NEW INCREASES

NEXT MAY). BUSINESS GROUPS WERE SIMILARLY RESERVED, APPLAUDING GOVERNMENT'S EFFORTS TO CONTROL INFLATION WHILE WARNING THAT INCREASED TAX REVENUES WOULD BE WASTED IF GOVERNMENT ITSELF DID NOT BEGIN TO HANDLE ITS FUNDS MORE "HONESTLY".

6. LIVELIEST DEBATE, HOWEVER, OCCURRED IN PAGES OF MEXICO CITY'S PRESS, WHERE -- GIVEN HIGHLY STRUCTURED NATURE OF MEXICAN POLITICAL SYSTEM -- THE COUNTRY'S DISPARATE, UNDER-REPRESENTED MIDDLE CLASS HAS ITS MOST EFFECTIVE OUTLET FOR EXPRESSION. HERE, EDITORIALS, OPINIONS, AND LETTERS-TO-THE-EDITOR COLUMNS ABOUNDED WITH COMPLAINTS OVER ALLEGED INEQUITY OF TAX PROPOSALS. FROM BOTH LEFT AND RIGHT, COMPLAINTS BOILED DOWN TO ONE: THAT URBAN MIDDLE CLASS WAS BEING ASKED TO BEAR A BURDEN GREATER THAN THAT REQUIRED OF UPPER CLASS OR OF GOVERNMENT ITSELF.

- ON THE LEFT, PROPOSALS WERE FAULTED FOR INCREASING LIVING COSTS OF ECONOMY'S MOST PRODUCTIVE GROUP WHILE ALLOWING FOREIGN DOMINATED BUSINESSES TO GET OFF SCOT-FREE; FOR FALLING FAR SHORT OF THE VAST NEEDS OF RURAL AREAS, WITH RESULT THAT DESIRED INCREASES IN AGRICULTURAL PRODUCTION WOULD BE A LONG TIME IN COMING; AND FOR FAILING TO END PRIVILEGED TAX STATUS OF INDUSTRY AND THE WEALTHY MINORITY. WHAT WAS NEEDED, SAID THE LEFT, WAS RADICAL REFORM IN FISCAL PHILOSOPHY, ONE WHICH WOULD SHIFT BURDEN OF DEVELOPMENT TO THOSE NOW REAPING PROFITS.

- ON THE RIGHT, GOVERNMENT WAS CRITICIZED FOR IGNORING ESSENTIAL FUNCTION OF MOTOR TRANSPORT FOR BOTH POOR AND RICH; FOR RAISING COST OF GASOLINE JUST WHEN DISCOVERIES OF MAJOR NEW OIL RESERVES WERE MAKING WORLD LIMITED OFFICIAL USE
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HEADLINES; FOR UNDERCUTTING TOURISM INDUSTRY AND ITS FOREIGN EXCHANGE EARNINGS THROUGH LEVY ON RESTAURANT TABS (ALSO OPPOSED BY RESTAURANT WORKERS' UNION); AND FOR FAILING TO HALT WASTE, DISHONESTY, AND MISAPPROPRIATION OF GOVERNMENT'S OWN FUNDS. WHAT WAS NEEDED, SAID THE RIGHT, WAS GREATER AUSTERITY, RESPONSIBILITY, AND INTEGRITY WITHIN GOVERNMENT ITSELF.

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7. (MOST-TALKED-BOUT OUTBURST CAME FROM CARTOONIST/
COLUMNIST ABEL QUEZADA, HARDLY A REACTIONARY, WHO FLAYED
GOVERNMENT FOR ASSUMING THAT AUTOS WERE A LUXURY IN A
COUNTRY WHERE PUBLIC TRANSPORTATION WAS CRIMINALLY
INSUFFICIENT. WITH HEAVY SARCASM, QUEZADA ADDED THAT IF
MEXICANS WERE GOING TO PAY TAXES LIKE FRENCHMEN OR AMERICANS,
HE ASSUMED THEY WOULD ALSO ENJOY SIMILAR BENEFITS: FREE
ELECTIONS, FREE SPEECH, A REPRESENTATIVE CONGRESS WHICH
SOMETIMES SAID "NO" TO PRESIDENT, AND TO AN END TO
BUREAUCRATS WHO ENRICH THEMSELVES AT PUBLIC TROUGH.)

8. THE GOM RESPONDED ENERGETICALLY WITH A BARRAGE OF
PUBLIC APPEARANCES AND NATIONALISTIC APPEALS BY TOP
SPOKESMEN, AS WELL AS AN EXTRAORDINARY SERIES OF NEGOTIA-
TING SESSIONS WITH THE CONGRESSMEN THEMSELVES. SOME
SIGNIFICANT (AND QUITE UNACCUSTOMED) ACCOMMODATIONS WERE
MADE: A SMALLER TAX WOULD BE ASSESSED AGAINST SALES OF
LOWER OCTANE GASOLINE; PUBLIC TRANSPORTATION WOULD BE
EXEMPTED FROM GAS TAX; AND RESTAURANT TAXES WOULD APPLY
ONLY IN THOSE DOING US\$40,000 OR MORE BUSINESS ANNUALLY.
GOM ALSO POINTED OUT THAT LEVIES ON HIGHEST PERSONAL
INCOME BRACKETS WERE BEING RAISED, AND THAT UNDERVALUED
RENTAL PROPERTIES IN WEALTHIER NEIGHBORHOODS WERE TO BE
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REASSESSED (UPWARD) FOR REAL ESTATE TAX PURPOSES. MEAN-
WHILE, IT ANNOUNCED THAT IT WAS TIGHTENING ITS OWN BELT
THROUGH CUTS IN GOVERNMENT SPENDING AND A MORE "ASUTERE"
1975 BUDGET. AND AS ICING ON THE CAKE, THE PRESIDENT
ISSUED ORDERS PROHIBITING BUREAUCRATS FROM HOSTING SOCIAL

AFFAIRS OR GIVING GIFTS AT GOVERNMENT EXPENSE.

9. AND ALL THE WHILE, SOMEWHERE ABOVE THE FRAY, PRES. ECHEVERRIA KEPT UP HIS DRUMBEAT ASSUALT ON THE "ROOT CAUSES" OF INFLATION AND SUPPLY SHORTAGES: THE INEQUITABLE STRUCTURE OF THE WORLD'S ECONOMY WHICH PERPETUATED DEPENDENCE AND PERMITTED EXPLOITATION OF POOR COUNTRIES AND THEIR RESOURCES BY MAJOR ECONOMIC POWERS. SACRIFICES ASKED OF MEXICO'S MIDDLE CLASS, HE SUGGESTED, WERE SHORT TERM MEASURES NEEDED TO STRENGTHEN MEXICO FOR THE TASK OF SEIZING CONTROL OF ITS OWN DESTINY OVER THE LONG HAUL.

10. COMMENT: IN THE END, OF COURSE, CONGRESS APPROVED A TAX PACKAGE WHICH DIFFERED ONLY marginally FROM THAT PROPOSED BY ECHEVERRIA TWO WEEKS EARLIER. PACKAGE WOULD PROBABLY HAVE GONE THROUGH UNSCATHED HAD IT NOT BEEN FOR TAX ON GASOLINE, PARTICULARLY THAT ON LOWER-GRADE "NOVA" WHOSE USERS WERE CLEARLY BEING HIT PROPORTIONATELY HARDER THAN THOSE BUYING MORE EXPENSIVE LINE. AS IT WAS, GASOLINE TAX HIT MOST SENSITIVE MIDDLE-CLASS NERVE POINT AND PRODUCED OUTCRY WHICH WAS PROBABLY MORE DRAMATIC THAN GOM BARGAINED FOR (SINCE GASOLINE IS DISTRIBUTED THROUGH GOVERNMENT-OWNED PEMEX, IT COULD HAVE ACCOMPLISHED SAME ENDS, WITHOUT CONGRESSIONAL APPROVAL, BY SIMPLY RAISING OFFICIAL PRICES).

11. MARGIN OF DIFFERENCE BETWEEN GOVERNMENT PROPOSALS AND FINAL LEGISLATION, HOWEVER, CONSTITUTED A SINGULAR POLITICAL EVENT IN RECENT MEXICAN HISTORY, SINCE RARELY HAS CONGRESS TAMPERED WITH POLICY SUBSTANCE OF LEGISLATIVE DRAFTS SENT OVER BY THE PRESIDENT. FOR ONCE, CONGRESSMEN DELVED INTO SUBSTANCE, FORMED AND EXPRESSED OPINIONS OF THEIR OWN, AND TO SOME DEGREE AT LEAST RESPONDED TO HUE AND CRY AMONG THEIR CONSITUENTS. WE MAY ASSUME THAT SUCCESSFUL EXPERIENCE WILL HAVE WHETTED THEIR TASTE FOR MORE OF SAME.

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12. FINALLY, TO GIVE GOM ITS DUE, ITS HANDLING OF TAX REFORM LEGISLATION DEMONSTRATED A REMARKABLE WILLINGNESS TO HEED PUBLIC OPINION, TO ARGUE ITS CASE IN FULL PUBLIC VIEW, TO AIR DIFFERENCES AND DEBATE ISSUES ON THEIR OWN MERIT, AND TO CONCEDE TO CONGRESS A DEGREE OF LAWMAKING FUNCTION ASSIGNED TO IT BY THE CONSTITUTION. ALTHOUGH OUTCOME WAS NEVER IN DOUBT, AND ALTHOUGH MIDDLE CLASS REMAINS DEEPLY EMBITTERED AT BEARING BRUNT OF NEW TAXES, THEIR PAINFUL EDGE MAY HAVE BEEN BLUNTED BY UNEXPECTED EXPERIENCE AT LEAST IN SOME MEASURE WITH POLITICAL "DEMOCRATICIZATION" PROMISED BY ECHEVERRIA SINCE 1970.

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Message Attributes

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